

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Public and Indian Housing

Special Attention of:	NOTICE PIH 98-14 (HA)
Housing Agencies; Tribally	Issued: February 24, 1998
Designated Housing Entities;	Expires: February 28, 1999
Indian Tribes; State/Area	
Coordinators; Public Housing	
Directors; Administrators,	
Office of Native American	
Programs; Resident Management	
Corporations (RMCs); Independent	
Auditors	

Subject: Single Audit Act Amendments of 1996: Information for
Public Housing Agencies and Indian Housing Entities

PURPOSE

The purpose of this Notice is to provide information on the major changes in the Single Audit Act (SAA) as a result of the Single Audit Act Amendments of 1996 (P.L. 104-156, July 5, 1996). The provisions of the SAA, and the implementing Office of Management and Budget (OMB) Circular A-133, apply to Public Housing Agencies and Indian Housing Authorities, including Tribally Designated Housing Entities and Indian Tribes; all of these public and Indian entities are herein referred to as HAS.

BACKGROUND

The Single Audit Act Amendments of 1996 made the following major changes in the previous provisions of the SAA:

- o Increases to \$300,000 the dollar threshold at which an HA has to undergo a single audit in accordance with the SAA for fiscal years beginning after 6/30/96 (i.e., fiscal year ending (FYE) 6/30/97, 9/30/97, etc.);
- o Exempts HAS that expend less than \$300,000 in Federal awards in a fiscal year from Federal audit requirements and prohibits HUD from reimbursing exempt HAS for Single Audits;
- o Permits HUD to pay for the cost of audits more limited in scope than a Single Audit when an audit is necessary for HUD to monitor an HA that is exempt from the requirement to have a Single Audit [Section 7503(b)];

- o Shortens the amount of time between the end of an audit period and the submission of the Single Audit report from 13 months to 9 months starting with fiscal years beginning after June 30, 1998 (i.e. FYE 6/30/99, 9/30/99, etc.);
- o Revises various procedural requirements with respect to the auditing process and report submission (e.g., substitutes risk for program size in determining major programs, streamlines report requirements, requires that a Federal clearinghouse be designated to receive reporting packages for Single Audits);
- o Increases the administrative flexibility of the Office of Management and Budget (OMB) to revise specific requirements within the statutory Single Audit framework. The policies, procedures, and guidelines to implement the SAA are prescribed by OMB Circular A-133.

A comparison of the major old and new legislative requirements for audits of Federal assistance is provided in Attachment A/B.

OMB CIRCULAR A-133

OMB Circular A-128 and Circular A-133 have been combined into a new OMB Circular A-133, revised to reflect the changes in the SAA.

The Single Audit Act Amendments of 1996 placed State and local governments and colleges and universities and other non-profit grantees under the same single audit process. As a result of this modification to the SAA, OMB issued uniform standards for the audit of States, local governments, and non-profit organizations expending Federal awards, in a revised Circular A-133 and rescinded Circular A-128. The new Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," was issued June 1997, and shall apply to HA audits of fiscal years beginning after June 30, 1996.

The revised OMB Circular A-133 was published in the Federal Register June 30, 1997, and is available on the OMB home page: <http://www.whitehouse.gov/WH/EOP/OMB/html/ombhome.html>.

Additional Single Audit information sources are provided in Attachment C.

PIH COMPLIANCE SUPPLEMENT

The PIH Compliance Supplement is an official part of the OMB Compliance Supplement for OMB Circular A-133. The PIH Compliance Supplement was issued by Notice PIH 96-32 with additional information provided in Notices PIH 96-53 and PIH 97-30. The Supplement contains the minimum compliance requirements to be tested for PIH programs, and remains in effect for Single Audits performed under OMB Circular A-133 for HAs expending more than \$300,000 in Federal awards in a fiscal year. The HA shall provide a copy of the Supplement to the independent auditor (IA) performing the HA Single Audit. The PIH Compliance supplement is available on the HUD-OIG home page under "Audit guides: <http://www.hud.gov/oig/oigindex.html>.

QUESTIONS & ANSWERS: HA AUDITS UNDER THE SAA, AS AMENDED

1. Q. Which HAs are required to get a Single Audit under the new dollar threshold of the SAA?
 - A. Any HA that spends \$300,000 or more in Federal awards in a fiscal year must have a Single Audit in accordance with the Federal audit requirements of the SAA and OMB Circular A-133.
2. Q. Which HAs are exempt from Federal audit requirements?
 - A. Any HA that spends less than \$300,000 in Federal awards in a fiscal year is exempt from the requirement to have a Single Audit and from individual Federal program award audit requirements. An exempt HA may, however, be subject to a non-Single Audit conducted or arranged for by HUD or by the General Accounting Office (GAO).
3. Q. What are considered to be "Federal awards" under the SAA?
 - A. "Federal awards" include Federal financial assistance received directly from a Federal agency (HUD or non-HUD), or indirectly from pass-through agencies (e.g., Federal awards administered by the HA for the local government).

"Federal awards" do not include HA operating income from rents or investments (or other non-Federal sources). In addition, debt service Annual Contribution payments made by HUD directly to fiscal agents for holders of HA bonds or for HA notes held by the Federal Financing Bank (FFB), are not considered when determining if the SAA "Federal awards expended" threshold is met by the HA in a fiscal year.

4. Q. How are "Federal awards expended" determined?
- A. In general, "expended" pertains to the disbursement of funds; i.e., the expenditure/expense transactions associated with the Federal award. For HAs, the entire amount of operating subsidy received during the fiscal year is considered to be "expended" during the fiscal year; HA disbursements made during the fiscal year for Section 8 programs, modernization, development, community involvement program grants, and other HUD programs are included in determining Federal awards "expended" for the fiscal year. The combined total of all Federal awards expended for all Federal programs (HUD and non-HUD) is used to determine if the \$300,000 threshold is met by the HA for the fiscal year.
5. Q. There may be some HAs that do not meet the \$300,000 SAA dollar threshold that already have contracted for a Single Audit, or that have multi-year contracts with auditors. Can HUD reimburse the HA that is exempt from the SAA if they proceed to have a Single Audit under an existing audit contract?
- A. No.
6. Q. Can HUD reimburse an HA that is exempt from a Single Audit under the SAA for the cost of a financial statement audit?
- A. Yes. OMB is permitting Federal Agencies to pay for the cost of a financial statement audit (not a Single Audit) of an exempt entity if the exempt entity elects to get a financial statement audit.
7. Q. If an HA is not certain that they will meet the \$300,000 SAA threshold for a Single Audit every year, or in any given year, does that mean that they cannot advertise for an auditor until after the fiscal year ends, or that they can never contract for multi-year audits?
- A. No. If an HA wants to contract for an annual audit, the HA can advertise for an auditor to do either a SAA Single Audit (performed in accordance with OMB Circular A-133) or a financial statement audit (performed in accordance with generally accepted auditing standards), as applicable. The term of the contract can be for one year, or (for a multi-year contract) for one year, with several options to renew on an annual basis. If the HA meets the SAA threshold for the fiscal year, the

auditor will proceed to do the Single Audit; if the HA does not meet the SAA threshold for the fiscal year, the auditor will proceed to do only a financial statement audit.

8. Q. Does the new SAA dollar threshold mean that small HAs that are exempt from the SAA will never be subject to an audit unless they elect to get a financial statement audit?
- A. No. Under the provisions of the SAA and OMB Circular A-133, even exempt HAs must maintain records concerning the Federal funds provided to them and must make those records available for review or audit by HUD. HUD can determine that a limited scope audit of an HA is necessary for a specific reason, or could select infrequently audited HAs for review on a random basis.
9. Q. When can HUD require an exempt HA to have a limited scope audit?
- A. HUD can conduct, or arrange for an exempt HA to get, a limited scope audit pursuant to HUD's risk-based approach. The objective of the risk-based approach is to identify significant issues with respect to fund accountability and/or regulatory compliance, and to concentrate the audit effort in the areas of greatest materiality to program administration. Situations that might be cause for HUD to require an audit of an HA exempt from audit under the SAA include:
- o Prior audit findings that indicated high risk, particularly when situations identified in the audit findings have not been corrected, or when the technical nature of the findings requires IA review to verify resolution;
 - o Designation as "troubled" or "Mod troubled," or when recent monitoring or other reviews performed by HUD staff have disclosed significant problems that may warrant more indepth review or follow-up by an auditor;
 - o Participation by the HA in a new HUD program with new or interim regulations that may have higher risk than an established program;
 - o Suspicion of fraud or criminal activity or adverse publicity that affects the credibility of the HA;

- o A significant period of time (e.g. three years or more) since the last audit or on-site visit by the HUD staff; small HAS in this category might be pooled by the HUD office and a few selected for audit each year on a random basis.

10. Q. Will an audit required by HUD be a Single Audit?

A. No. When HUD requires an exempt HA to be audited, the audit will be of more limited scope than a Single Audit. For example, the audit may be a financial statement audit, a compliance audit of a specific program, a review of a particular HA function (for example, the HA procurement or contracting process), or a review limited to the HA documentation maintained to support PHMAP certifications --- the limited scope audit allows HUD to target audit resources to areas presenting greatest risk to the HUD programs.

11. Q. Who will decide when a HUD arranged audit of an exempt HA by an independent auditor (IA) is necessary?

A. Generally, the local HUD Office having jurisdiction over the HA will make the determination that a limited scope IA audit of the HA is necessary after consultation with the District Inspector General for Audit (DIGA). The PH Director or ONAP Administrator will submit to the DIGA a written evaluation of the HA that specifically identifies the cause for the HUD arranged IA audit, and the objectives to be achieved by the audit. The final decision to contract for an IA audit will be made by the PH Director or ONAP Administrator only after the DIGA agrees that an audit is required and approves the specific scope of audit required to meet the objectives. Such audits will build upon, and not be duplicative of, other IA annual audits (either Single Audits or financial statement audits).

12. Q. If HUD requires an exempt HA to get a limited scope audit, will HUD pay for the audit?

A. Yes. Until further notice, IA audits required by HUD for HAS that are exempt from a Single Audit will be paid for from operating subsidy or other HUD funds, either by reimbursement to the HA or by HUD under the same procedures used for contracting, obligation and direct payment outlined in PIH Notice 96-74, Procedures for Obtaining Audit Services for HAS Not in Compliance With Audit Requirements.

SUMMARY OF ALLOWABLE AUDIT COSTS

Under the provisions of the Single Audit Act, OMB Circular A-133, and as permitted by OMB instructions, HUD will provide funding for the following types of HA audits:

- o Annual Single Audits performed in accordance with the SAA and OMB Circular A-133 for HAs that spend \$300,000 or more in Federal awards in a fiscal year.
- o Annual financial statement audits performed in accordance with generally accepted auditing standards for HAs that spend less than \$300,000 in Federal awards in a fiscal year and that are exempt from the SAA, when the HA elects to get such an audit.
- o Additional limited scope audits, or agreed upon procedures engagements, as required by HUD, when such audits are determined by HUD to be necessary pursuant to HUD's risk-based approach.

Reimbursement for annual audits (Single Audits or financial statement audits) will continue to be made to the HA by HUD from applicable program funds (e.g., operating subsidy, Section 8, development, Comprehensive Grant funds); annual audits for Indian housing entities are payable from Indian housing block grant funds. HUD directed limited scope audits will be paid for from operating subsidy or other HUD funds either by reimbursement to the HA or by direct payment by HUD to the IA.

SUBMISSION OF THE AUDIT REPORT TO HUD

The HA shall provide two copies of the completed audit report issued by the IA to the local HUD Office having jurisdiction over the HA. In addition to the audit report, the HA will submit to the local HUD office any other written communications from the IA, such as a Management Letter, that are issued separately to the HA.

SUBMISSION OF SINGLE AUDIT INFORMATION TO FEDERAL CLEARINGHOUSE

The HA shall submit to the Federal Clearinghouse the data collection form, SF-SAC, and one copy of the reporting package (as defined in OMB Circular A-133, Section .320) at the completion of a Single Audit. The SF-SAC must be filled out in accordance with the directions printed on the form; i.e., some sections are completed by the HA and some sections are completed by the IA using the information in the reporting package. The form must be signed by both the Auditor and the HA. The address

of the Federal Clearinghouse is printed on the form. If necessary, the HA may request the assistance of the IA to assure that the reporting package submitted with the Form SF-SAC is complete and in accordance with the requirements of OMB Circular A-133.

Form SF-SAC, Data Collection Form for Reporting on Single Audits, is available by calling the OMB fax line (from the telephone on your fax machine) at 202-395-9068; the document number is 1330.

A copy of the reporting package submitted to the Federal Clearinghouse for the Single Audit shall also be submitted by the HA to the local HUD office.

EFFECTIVE DATE

The Single Audit Act, as revised by the SAA Amendments of 1996, and the provisions of the implementing OMB Circular A-133, are effective for HA fiscal years beginning after June 30, 1996 (i.e., FYE 6/30/97, 9/30/97, 12/30/97, etc.).

HAs that have questions concerning the applicability of the Single Audit requirements to the HA, should contact the local HUD Office.

Questions from the local HUD Office concerning the SAA requirements can be directed to the applicable Headquarters program office: PIH, Joan DeWitt, Finance & Budget Division at 202-708-1872; ONAP, Deborah LaLancette, Housing Management Division at 303-675-1600.

/s/

Kevin Emanuel Marchman
Assistant Secretary for
Public and Indian Housing

Attachments:

[Attachment A/B](#) Comparison of Old and New Audit Provisions
[Attachment C](#) Single Audit Information Sources
[Attachment D](#) Listing of Code of Federal Domestic Assistance
(CFDA) numbers for Public & Indian Housing
programs for 1997